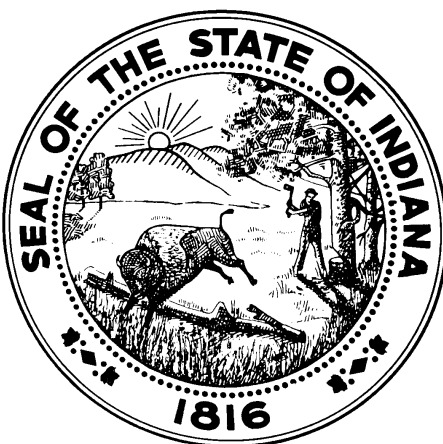


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

REVIEW REPORT
OF
INDIANA ARTS COMMISSION
STATE OF INDIANA
April 1, 2006 to February 29, 2008



FILED
06/26/2008

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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Dorothy L. Ilgen	07-01-05 to 07-31-06
	Michelle Anderson	08-01-06 to 10-01-06
	Lewis Ricci	10-02-06 to 06-30-08
Chair	Ronald J. Stratten	07-01-05 to 06-30-07
	Richard Q. Stifel	07-01-07 to 06-30-08



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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE INDIANA ARTS COMMISSION

We have reviewed the receipts, disbursements, and assets of the Indiana Arts Commission for the period of April 1, 2006 to February 29, 2008. The Indiana Arts Commission's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the receipts, disbursements, and assets of the Indiana Arts Commission are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations except as stated in the review comments.

STATE BOARD OF ACCOUNTS

May 8, 2008

INDIANA ARTS COMMISSION
REVIEW COMMENTS
February 29, 2008

INTERNAL CONTROLS OVER DISBURSEMENTS

As stated in our prior Report B27430, the Indiana Arts Commission held a State warrant for several months before forwarding to the payee. The payment was processed in June 2005 to prevent its mandatory reversion back to the General Fund. This warrant was not released to the payee until February 2006, when the payee forwarded the required financial report.

During the current review, the Indiana Arts Commission held several state warrants totaling \$172,602.00 before forwarding to the payees. The payments were processed in June 2006 to prevent their mandatory reversion back to the General Fund. The warrants were not released to the payee until August 2006 when the payees forwarded the required financial report.

Each agency, department, quasi, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

INTERNAL CONTROLS OVER CONTRACTS

As stated in our prior Report B27430, the Indiana Arts Commission issues two year grants to regional not for profit entities (subgrantees) to advance promotion of the arts in Indiana. The contract used to secure these two year agreements does not include all subgrantee requirements regarding audits and reports.

During the current review period, contracts used to secure two year grants to regional not for profit entities for state fiscal year 2008-2009 and one year grants to individual arts programs for state fiscal year 2008 do not include all subgrantee requirements regarding audits and reports as well as payment distribution amounts.

Each agency, department, quasi, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

GRANT REQUIREMENTS

Records presented for review indicated that the Indiana Arts Commission did not comply with the grant contract requirements with subgrantees by not making payments based on payment percentages as dictated in the contract terms.

Each agency, department, quasi, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 1)

INDIANA ARTS COMMISSION
REVIEW COMMENTS
February 29, 2008
(Continued)

INTERNAL CONTROLS OVER RECEIPTS

The Indiana Arts Commission did not consistently deposit receipts within the following business day. Also, a cash/receipt book was not maintained.

Indiana Code 5-13-6-1(b) states in part: ". . . all public funds . . . shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state not later than the business day following the receipt of the funds."

Indiana Code 5-13-5-1(a) states: "Every public officer who receives or distributes public funds shall: 1) keep a cashbook into which the public officer shall enter daily, by item, all receipts of public funds; and 2) balance the cashbook daily to show funds on hand at the close of each day."

SDO FUND RECONCILIATIONS

As stated in our prior Report B27430, the Indiana Arts Commission has not performed reconciliations of its Special Disbursing Officer (SDO) advance.

Two reconciliations must be performed for the SDO fund each month. The bank statement for the checking account must be reconciled to the check register. Also, the check register must be balanced to the total SDO advance. These reconciliations must be formally documented. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 7)

SDO ADVANCE

The Special Disbursing Officer Fund (SDO) advance for the Indiana Arts Commission was not turned over, or reimbursed completely, for several months.

If a SDO advance is not used within one or two months then the SDO advance is too large and should be reduced. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 7)

MOTOR POOL LOGS

We noted that State Form 13696, Report of Vehicle Mileage and Costs, did contain proper addresses of each destination. Additionally, we noted that the reports were not reviewed and approved by the employees' supervisor for proper use of a state-owned vehicle.

In order for an agency and Motor Pool to monitor vehicle use, the driver must complete the Report of Vehicle Mileage and Cost, also known as the Motor Pool log. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 11)

INDIANA ARTS COMMISSION
EXIT CONFERENCE

The contents of this report were discussed on May 28, 2008, with Lewis Ricci, Executive Director; Michelle Anderson, Deputy Director; and Emelita Tolentino, Accountant. The official response has been made a part of this report and may be found on pages 7 and 8.

The contents of this report were provided by e-mail on June 3, 2008, to Dorothy L. Ilger, former Executive Director. Her response has been made a part of this report and may be found on page 9.



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Indiana State Board of Accounts
Mike Hoose
302 West Washington Street
Room E 418
Indianapolis, IN 46204-2765

June 2, 2008

Dear Mr. Hoose:

This is an "OFFICIAL RESPONSE" to the Indiana Arts Commission's (IAC) review comments from the May 28, 2008 Exit Interview.

1. Internal Controls Over Disbursements – In the 2006 audit, the issue of late-released warrants was brought to the IAC's attention. In response, the final report deadline changed from the end of June to the end of May so that future disbursements for grants, starting in FY07, would be processed and released in a timely fashion. By the time the 2006 audit concluded, FY06 grants were at the end their cycle and new due dates could not be imposed. Therefore, for the last time, warrants were held until final reports were received and processed. This explains this final set of late-released warrants discovered in the FY08 audit.
2. Internal Controls Over Contracts and Grant Requirements – In response to the 2006 audit, the IAC established stricter guidelines and grant requirements for its grantees. These changes were detailed in its FY06 Response Letter to the State Board of Accounts. After the submission of that Letter and not hearing otherwise, the IAC believed that it had satisfied the requirements of the State Board of Accounts and implemented the suggested changes. The FY08 Audit has brought up additional requirements. The IAC will work to integrate the following controls in its new grant contracts and guidelines:
 - a. Develop and utilize an internal grant checklist for all grantees to insure proper documentation is on file for every grant – including updated audits and reports.
 - b. Further clarification of audit and E-1 requirements will be made available on the IAC's public website, alongside each set of grant guidelines.



Mitchell E. Daniels, Jr.
Governor

Lewis C. Ricci
Executive Director

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- c. In all new grant contracts, the IAC will note the specific location of the grant and reporting guidelines.
 - d. The IAC will work with the State Board of Accounts to provide a yearly list of its grantees to insure organizational adherence to the E-1 reporting and audit requirements.
 - e. Grant contracts will detail specific payment percentages for federal and state disbursements.
3. Internal Controls Over Receipts – Deposits were not made by the following business day for donations made to the Governor’s Arts Awards in the fall of 2007. This was a result of sudden, unexpected staff turnover. The IAC’s Financial Manager, Emelita Tolentino, will insure adherence to this procedure for future IAC deposits.
4. SDO Fund Reconciliations and SDO Advance – The IAC’s SDO fund was not properly managed and reconciled. This was due in part to the amount of time the IAC’s Financial Manager, Emelita Tolentino, devoted to learning and implementing the State of Indiana’s conversion to People Soft (ENCOMPASS) throughout FY06, 07, and 08. The IAC is aware that regardless, adherence to these controls is of paramount importance. Therefore, Ms. Tolentino is working to reconcile and close this under-utilized SDO Fund. Once the SDO and FY08 are closed, further discussion about this lapse in management will occur between the Ms. Tolentino and the Deputy Director to prevent future problems in other controls.
5. Motor Pool Logs – For future state travel, IAC staff will record specific addresses throughout the course of their trips and supervisors will review and sign the logs after trips are complete. Because the State of Indiana Motor Pool has dissolved, IAC staff will continue to use the same mileage record form with its Enterprise Rentals until directed differently by the State Board of Accounts.

Thank you to Matt Stone and Chris Nill for a positive, thorough audit. Their insightful expertise will certainly help the IAC as it strengthens its internal controls to serve the citizens of Indiana.

Sincerely,

Lewis C. Ricci
Executive Director

Michelle Anderson
Deputy Director

June 9, 2008

Mike Hoose
Indiana State Board of Accounts
302 W. Washington St., Room E418
Indianapolis, IN 46202

Dear Mr. Hoose:

Thank you for the opportunity to respond to SBOA review comments contained in the review of the Indiana Arts Commission (IAC) for the period of April 1, 2006 to February 29, 2008. As you know, I served as the executive director of the IAC through August 31, 2006; therefore, my response will address the review comments that are concerned only with the period of April 1, 2006 to August 31, 2006.

Internal Controls Over Disbursements

This issue has been resolved by the IAC, as noted in the IAC's review comments dated March 31, 2006 and in the IAC's June 2, 2008 response letter, by modifying grant guidelines and contracts for future grant cycles to require the timely submission of final grant reports; for example, the deadline for submission of final reports was moved to May to allow ample time for staff review of the final reports and for the processing of final payments. However, FY 2006 grant guidelines and grant contracts contained the old timeline for submission of final reports and final grant payments. IAC staffed worked diligently to process the FY 2006 final reports and final grant payments to insure that state warrants were not held beyond a reasonable time.

Internal Controls Over Contracts

I have no additional comments to add beyond the response provided in the IAC's June 2, 2008 response letter.

Grant Requirements

I have no additional comments to add beyond the IAC's June 2, 2008 letter.

Internal Controls Over Receipts

This review comment addresses the time period after my tenure.

SDO Fund Reconciliation & SDO Advance

I have no additional comments to add beyond the IAC's June 2, 2008 letter.

Motor Pool Logs

I have no additional comments to add beyond the IAC's June 2, 2008 letter.

Best regards,



Dorothy L. Ilgen

Cc: Lewis Ricci, Executive Director
Indiana Arts Commission

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